FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

In Reply Refer To:
Office of Enforcement
Docket No. PA12-10-000
June 28, 2013

Northeast Power Coordinating Council, Inc.
Attention: Mr. Edward A. Schwerdt
President and Chief Executive Officer
1040 Avenue of the Americas, 10th Floor
New York, NY 10018

Dear Mr. Schwerdt:

1. The Division of Audits (DA) within the Office of Enforcement (OE) of the Federal Energy Regulatory Commission (Commission) has completed the audit of the Northeast Power Coordinating Council (NPCC), for the period from August 23, 2006 through February 25, 2013. The enclosed audit report explains our audit conclusions and recommendations.

2. The audit evaluated NPCC's budget formulation, administration, and execution. Also, DA focused on the costs and resources used to achieve program objectives in fulfilling the duties delegated to NPCC by the North American Electric Reliability Corporation as the Electric Reliability Organization under section 215 of the Federal Power Act.[1]

3. In its June 25, 2013 response, NPCC stated it accepts the audit report and has already taken actions to address the recommendations. A copy of your verbatim response is included as an appendix to this report. I hereby approve the audit report.

4. Within 30 days of this letter order, NPCC should submit a plan to comply with the recommendations. NPCC should make quarterly submissions describing how and when it plans to comply with the recommendations, including the completion date for each recommendation. The submissions should be made no later than 30 days after the end of each calendar quarter, beginning with the first quarter after this audit report is issued, and continuing until all the recommendations are completed.

[1] 16 U.S.C. § 824o (2012).

5. The Commission delegated the authority to act on this matter to the Director of OE under 18 C.F.R. § 375.311 (2012). This letter order constitutes final agency action. SERC may file a request for rehearing with the Commission within 30 days of the date of this order under 18 C.F.R. § 385.713 (2012).

6. This letter order is without prejudice to the Commission's right to require hereafter any adjustments it may consider proper from additional information that may come to its attention. In addition, any instance of noncompliance not addressed herein or that may occur in the future may also be subject to investigation and appropriate remedies.

7. I appreciate the courtesies extended to our auditors. If you have any questions, please contact Mr. Bryan K. Craig, Director and Chief Accountant, Division of Audits at (202) 502-8741.

Sincerely,

Norman C. Bay
Director
Office of Enforcement

Enclosure

Federal Energy Regulatory Commission

Audit of Regional Entity Responsibilities and Budgeting Practices for the Northeast Power Coordinating Council, Inc.

Docket No. PA12-10-000
June 28, 2013

Office of Enforcement
Division of Audits

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I. Executive Summary

A. Overview

On October 28, 2011, the Division of Audits (DA) commenced an audit of Northeast Power Coordinating Council, Inc. (NPCC). The audit addressed NPCC's compliance with its responsibilities as a Regional Entity (RE) pursuant to: (1) the Delegation Agreement between the North American Electric Reliability Corporation (NERC), the Commission's certified Electric Reliability Organization, and NPCC; (2) the NPCC Bylaws; and (3) other obligations and responsibilities as approved by the Commission. Additionally, the audit evaluated NPCC's budget formulation, administration, and execution, and the resources used to achieve program results. The audit covered the period from August 23, 2006 to February 25, 2013.

B. Northeast Power Coordinating Council, Inc.

NPCC is one of eight NERC REs. The Commission approved NPCC as an RE on August 23, 2006. As an RE, NPCC is responsible for promoting and improving the reliability of the international, interconnected Bulk-Power System (BPS) in Northeastern North America. NPCC is based in New York, NY, and carried out its duties as an RE to registered entities in these seven states: New York, Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont, as well as four Canadian provinces: Ontario, Québec, New Brunswick, and Nova Scotia. NPCC's registered entities covered an area of approximately 1.2 million square miles of service territory, which was populated by over 55 million people. NPCC's Net Energy for Load (NEL), which was the default concept used to allocate costs of the RE, was split with 45 percent NEL in the United States and 55 percent NEL in Canada.

C. Summary of Conclusions

Audit staff's audit conclusions are summarized below. Details are in section IV of this report.

- *Cost Allocation Methodology* – Audit staff had the following concerns with the method NPCC used to allocate costs related to its compliance and enforcement services provided to U.S. and Canadian entities:

    - NPCC did not use actual cost or employee time data or a representative study of such data when developing its cost allocation methodology for the total compliance and enforcement costs allocated to U.S. and Canadian Balancing Authorities (BAs);

- While NPCC performed audits of the BAs for the provinces of Ontario and New Brunswick, it did not assign any costs to these particular entities when using an audit-based methodology to assign a portion of its cost of compliance and enforcement services it provided to registered entities. This omission of assigned costs led to an annual over-billing of the other four BAs within the region of approximately $160,000 in 2012; and

- NPCC used different NEL data in determining assessments for compliance services and other services in its 2011 and 2012 budget filings, which resulted in one BA being over-billed approximately $27,000 while another BA was under-billed by the same amount.

- *Identification and Budgeting of Nonstatutory Activities* – NPCC did not adequately determine the amount of employees who worked on nonstatutory activities for its CS division because it did not adequately track the time or conduct a representative study of employees who devoted time to this division.

- *Mitigation Plan Processing* – Although audit staff believes that NPCC had adequate processes and procedures for tracking, reviewing, and monitoring mitigation plans, NPCC should enhance these processes and procedures as necessary to ensure it is able to meet the CMEP deadlines. Audit staff found on occasion that NPCC missed certain CMEP deadlines for handling mitigation plans.

- *NPCC's Expense and Reimbursement Policies* – NPCC should enhance its existing internal policies and procedures for expenses and reimbursements to ensure it:

  - Increases its level of review of employee expenses for compliance with internal policies and procedures;

  - Evaluates and reviews its expenses to determine cost effectiveness, and that a clear standard of reasonableness is followed; and

  - Consider establishing criteria linking employees receiving educational reimbursement to employee retention with NPCC.

- *Employee Compensation Studies* – During the course of the audit, audit staff was encouraged that NPCC entered into a contract with a third party to perform a total compensation study to support the salaries and benefits of certain employees. Prior to this decision, NPCC had only performed a compensation study for its President and CEO position. For all other positions, NPCC relied on results provided by an NPCC registered entity, which did not include the data and comprehensive information used to arrive at the final pay band levels.

Audit staff also addressed the following other matter:

- *NPCC Collection of its Funding Requirement* – Audit staff was concerned that NPCC did not have sufficient policies and procedures in place to ensure that its billing letters to the U.S. BAs identified the appropriate registered entities responsible for funding NPCC's nonstatutory Criteria Services (CS) division. Since NPCC did not identify the appropriate registered entities in its billings, the BAs socialized the costs of the CS division among all NPCC registered entities. As a result, some of these registered entities were billed for services provided by the CS division that they neither requested nor received. In addition, these costs may have been paid by some of these registered entities' ratepayers. Although these amounts were not significant, NPCC should still ensure that the correct amounts are billed to the appropriate registered entities.

D. Summary of Recommendations

Audit staff's recommendations to NPCC to address the audit conclusions, and the corrective actions taken by NPCC, are summarized below. Detailed recommendations and corrective actions taken by NPCC are in section IV. Audit staff recommends that NPCC:

1. Conduct a review of the time and resources dedicated to the areas of NPCC's compliance and enforcement program to develop a cost allocation methodology that tracks the actual cost of performing these services.

2. Modify the audit-based cost allocation methodology so that the methodology accurately reflects the audits expected to be performed.

3. Develop a review procedure to ensure that all NEL data is updated to ensure accuracy in NPCC's Business Plan and Budget.

4. Determine the amount of over- and under-billings that occurred during the audit period as the result of certain audits not being included in the 60/40 split and the use of incorrect NEL data, and make the appropriate billing adjustments to the BAs.

5. Conduct periodic time studies to determine a more accurate allocation of every NPCC employee's time between NPCC's RE and CS divisions.

6. Implement time tracking to accurately monitor the time spent on RE and CS activities.

7. Strengthen its policies and procedures governing employee time reporting and tracking.

8. Strengthen its policies and procedures to ensure that it tracks and monitors all mitigation milestones to completion and reviews registered entities' quarterly mitigation plan update submissions.

9. Strengthen its policies and procedures to ensure it meets required mitigation plan processing deadlines set by the NERC CMEP.

10. Ensure all employees follow the policies and procedures in place with regard to incurring travel and business expenses, and providing proper documentation of expenditures.

11. Strengthen its review process for employee expenditures to ensure compliance with internal policies and procedures.

12. Revise its policies and procedures for expenses to include a definition of reasonableness for expenses. Also, revise policies and procedures to include procedures for monitoring employee expense reports for unreasonable or excessive items.

13. Consider revising its policies and procedures to determine if it is appropriate to place a service requirement on employees receiving educational reimbursement.

14. Consider conducting an analysis to determine whether using an NPCC registered entity's compensation study allows NPCC to obtain sufficient information to make compensation decisions and is transparent to NPCC and its registered entities.

15. Consider revising its current policies and procedures for evaluating employee compensation by conducting compensation studies directly related to NPCC and all levels of employees.

16. Work with the U.S. BAs to strengthen its policies and procedures to ensure the billing letters sent to the U.S. BAs for collection of the funding requirement of the nonstatutory CS division specify the registered entities responsible for bearing the cost of that division.

During the course of the audit, NPCC took the following corrective actions to comply with some of audit staff's recommendations.

1. Updated its budget model to include formulas that ensure the proper NEL data is used.

2. Updated its software to provide mechanisms to notify both NPCC and the affected registered entities of mitigation plan milestone quarterly report submission deadlines.

3. Updated its internal policies and procedures to place emphasis on adhering to the mitigation plan processing deadlines set by the CMEP.

4. Revised its expense policies and procedures to formalize its reasonableness stipulation and strengthen its review process to monitor for unreasonable or excessive expenses.

5. Updated its policies and procedures on educational reimbursement for employees by instituting a continued service requirement when NPCC has sponsored a degree program.

E. Implementation of Recommendations

Audit staff further recommends that NPCC:

- Submit its plans for implementing audit staff's outstanding recommendations for audit staff's review. NPCC should provide its plan to audit staff within 30 days of issuance of the final audit report in this docket.

- Submit quarterly reports to the Division of Audits describing NPCC's progress in completing each outstanding recommendation in the final audit report in this docket. NPCC should make its quarterly filings no later than 30 days after the end of each calendar quarter, beginning with the first quarter after the final audit report in this docket is issued, and continuing until NPCC completes all recommended actions.

- Submit copies of any written policies and procedures developed in response to the recommendations in this audit report. These policies and procedures should be submitted for audit staff's review in the first quarterly filing after NPCC completes them.

II. Background

A. Overview

Under its delegation agreement with NERC, NPCC elected to split its operations into two divisions, one statutory (conducting activities pursuant to section 215 of the Federal Power Act (FPA)), and the other nonstatutory: (1) the Regional Entity (RE) division is statutory; and (2) the Criteria Services (CS) division is nonstatutory. The RE division sought to enhance the reliability of the international, interconnected BPS in Northeastern North America through the development of regional reliability standards, coordination of system planning, design and operations, assessment of reliability, and compliance assessment and enforcement of reliability standards.[1] The CS division also sought to promote the reliable and efficient operation of the international, interconnected BPS in Northeastern North America through the establishment of nonstatutory regionally specific criteria, and monitoring and enforcement of compliance with such criteria. Both divisions supported BAs within the United States and Canada (two BAs in the United States and four BAs in Canada). The two U.S. BAs were the New York Independent System Operator (NYISO) and the Independent System Operator-New England (ISO-NE). The four Canadian BAs were located in the provinces of Québec, Ontario, New Brunswick, and Nova Scotia.

NPCC is governed by a Board of Directors. Starting January 1, 2012, NPCC moved to a hybrid Board structure with both stakeholder directors and independent directors. Prior to that date, the Board had consisted solely of unpaid stakeholder directors. After the switch to the hybrid Board structure, the Board consisted of two unpaid directors from each of seven stakeholder voting sectors, as well as two paid independent directors from one independent sector.[2] Also, the Board was led by a paid independent Chairman, who served over the sixteen Board directors and had the authority to break Board deadlocks.

[1] In addition, NPCC's RE division recently became the Compliance Enforcement Authority for the registered functions of another RE, the Western Electricity Coordinating Council.

[2] The voting sectors are: Transmission Owners; Reliability Coordinators; Transmission Dependent Utilities, Distribution Companies, Load-Serving Entities; Generator Owners; Marketers, Brokers, and Aggregators; Regulators; Sub-Regional Reliability Councils, Customers, other Regional Entities, and Interested Entities; and Independents.

B. Statutory Activities

Under section 215(e)(4) of the FPA, the Commission approved NERC's delegation of certain statutory functions to the REs.[3] Effective January 1, 2011, NPCC executed an Amended and Restated Regional Delegation Agreement with NERC that delegated to NPCC certain responsibilities and authorities of a cross-border RE in the United States. For Canadian responsibilities and authorities, NPCC executed Memoranda of Understanding with provincial regulatory and/or governmental authorities in Ontario, Québec, New Brunswick, and Nova Scotia. NPCC carried out its statutory functions and responsibilities under FPA section 215 through services provided by the RE division. The RE division was broken out into the following program areas: Reliability Standards; Compliance Monitoring and Enforcement and Organization Registration and Certification (CORC); Training, Education, and Operator Certification (TEOC); Reliability Assessment and Performance Analysis (RAPA); and Situation Awareness and Infrastructure Security (SAIS). To support those program areas, NPCC maintained employees in general and administrative functions including legal and regulatory, human resources, information technology, and finance and accounting.

For 2012, NPCC increased its total funding requirement for the RE division from $13,430,711 to $14,314,467, an increase of $883,756 or 6.6 percent from 2011. Additionally, in 2012, NPCC had a targeted staffing level of 35.43 Full-Time Equivalents (FTE). The 2012 targeted staffing level increased by 4.01 FTEs from 2011. Those added employees were in the program areas of Reliability Standards, CORC, RAPA, and legal and regulatory. Although NPCC increased its FTEs, NPCC also increased its budget for consultant and contract services to support activities under the CORC program area. NPCC did not consider consultants or contractors as part of its FTE calculation.

Reliability Standards

The Reliability Standards program supported and participated in the development, revision, and maintenance of NERC Reliability Standards, initiated new reliability standards when necessary, and provided a forum for the comprehensive review and improvement of those standards. Also, this program facilitated active participation of industry stakeholders in the development of reliability standards and developed regional reliability standards as necessary to ensure the reliability of the BPS. The Reliability Standards program was managed by an Assistant Vice President (AVP) and supported by an additional FTE.

[3] 16 U.S.C. § 824o (2012).

Compliance Monitoring and Enforcement and Organization Registration and Certification

The CORC Program was split into two areas for management purposes: (1) Registration and Enforcement; and (2) Audits and Investigations. Each separate area was managed by a different AVP. In addition to the two AVPs, thirteen FTEs supported this program area. This program area also relied upon contractors and consultants to carry out the activities of the program area. The Registration and Enforcement area was further split into two sub-program areas: (1) Compliance Implementation and Registration; and (2) Compliance Enforcement. The Compliance Implementation and Registration sub-program area was responsible for identifying all entities that were required to meet the NERC and Regional Reliability Standards for registration, developing, and maintaining processes and procedures for carrying out the Compliance Monitoring and Enforcement Program (CMEP), carrying out the implementation of the CMEP, and certifying Transmission Operators as needed. The Compliance Enforcement sub-program area was responsible for conducting compliance investigations, issuing all notices described in the CMEP,[4] reviewing and processing mitigation plans, coordinating settlement activities, and participating in compliance hearings for disputed compliance issues before the NPCC Hearing Body.

The Audits and Investigations program area was also split into two sub-program areas: (1) Compliance Audit Program; and (2) Compliance Investigation. The Compliance Audit Program sub-program area was responsible for conducting both onsite and offsite audits for compliance with NERC reliability standards and Critical Infrastructure Protection (CIP) standards. Also, this group conducted spot checks to actively monitor registered entities that previously violated a NERC reliability standard or had been involved in a significant system event. The Compliance Investigation sub-program area was responsible for conducting compliance investigations as the result of Event Analyses or self-reports from registered entities, and coordinating with NERC and FERC as necessary.

Training, Education, and Operator Certification

The TEOC program area was responsible for providing necessary education and training to BPS operating personnel so that the personnel could understand and operate the Bulk-Electric System. This training related to inter-Reliability Coordinator area matters, criteria, terminology, standards and operating procedures, and instructions. The BPS operating personnel included system operations personnel, operations support personnel (engineering and information technology), supervisors and managers, and

[4] Notice of Possible Violation, Notice of Alleged Violation, and Notice of Confirmed Violation.

training personnel. Also, the TEOC program area supported internal NPCC staff training and development needs and kept all required documentation for those needs and services. The TEOC program area was supported by one employee, who devoted ten percent of his time to this program area, with the remainder of his time spent in the RAPA program area.

Reliability Assessment and Performance Analysis

The RAPA program area was responsible for reviewing the adequacy of the NPCC systems to supply load considering forecast demand, installed and planned supply and demand resources, and required reserves in accordance with applicable NPCC reliability directories.[5] Also, the RAPA program was responsible for assessing the impact of planned transmission and resource additions or modifications on NPCC system reliability in accordance with applicable NPCC reliability directories. To assess the system capabilities seasonally, the RAPA program area provided both a winter and summer assessment each year to the region. The RAPA program area was managed by one AVP and supported by an additional 4.9 FTEs. One employee split his time between the RAPA (90 percent) and TEOC (10 percent) program areas.

Situation Awareness and Infrastructure Security

The SAIS program area was responsible for conducting and reviewing Event Analyses, working with registered entities to respond to NERC alerts on electric reliability threats, monitoring the operational status of the BPS, coordinating communication, awareness, and assistance to and among registered entities, and participating in task forces on CIP standards to review standards and monitor the region for CIP threats. The SAIS program area was managed by one AVP and supported by an additional three FTEs.

C. Budget Formation, Accounting, and Recordkeeping

Budget Formation

NPCC coordinated with both NERC and the Commission to formulate its budget. NPCC and the other seven REs worked together to develop shared business plan and budget assumptions through NERC's Electric Reliability Organization (ERO) Executive

[5] Per the February 27, 2013 NPCC Reliability Assessment Program Highlight Report, "directories" are reliability criteria that NPCC believes are "more stringent and specific" than the NERC standards, but have not been incorporated into the NERC CMEP process by NPCC. NPCC Reliability Assessment Program Highlight Report (Feb. 27, 2013).

Management Group. The ERO Executive Management Group consisted of the NERC Chief Executive Officer (CEO) and the CEO of each RE, as well as other subgroups of each RE that collaborated in the development of the budget assumptions, annual goals, and key deliverables for the budget. Through the ERO Executive Management Group, NPCC and the other seven REs coordinated with Commission staff for budget consistency.

To form its corporate and individual performance goals, NPCC used the ERO Strategic Plan, a plan developed as part of a joint effort to align and create budget consistency among regions. Every year the NPCC President and CEO, Vice President and Chief Operating Officer (VP and COO), and the AVPs identified focus areas that are important for NPCC. After developing key elements and yearly objectives, NPCC then created corporate and individual goals to support its budget formation.

In March of the year proceeding the budget year, NPCC began drafting its Business Plan and Budget using the NERC template.[6] The NPCC management team began the budget development process by identifying overall corporate goals for the budget year in conjunction with the goals and objectives of the NERC and the ERO as a whole. Each AVP then reviewed his or her individual program area's key assumptions, goals, and deliverables for the budget year. The AVPs were responsible for providing input for labor needs, contractors or consultants, projects, and projected meetings NPCC may host or attend. At this time, AVPs also considered travel-related costs and associated expenses, such as employee training, related to their program area.

The NPCC Financial Analyst coordinated the budget process across program areas and updated the NPCC budget model with budget year projections and assumptions. The input received from each AVP during the budget process varied in format and depth of budgeted estimates and assumptions. NPCC worked on standardizing the budget process across its program areas. The budget model contained numerous spreadsheets that formulated the cost of NPCC's budgeted activities for the budget year. NPCC used the compensation study of one of its registered entities to determine the bandwidths for competitive salaries and benefits of its employees.

NPCC staff developed the budget from March to June of the preceding calendar year with input from AVPs and outside stakeholders. The NPCC Board reviewed and approved the Business Plan and Budget in June and once approved, the Business Plan and Budget was submitted for NERC's review and approval in early July of the preceding budget year. Once approved by NERC, the Business Plan and Budget was submitted to the Commission for its review, which usually occurs in late August.

[6] NERC, as well as the REs, operate on a calendar-year budget year.

Accounting and Recordkeeping

NPCC used the NERC System of Accounts (NSOA) to classify income and expenses. The NSOA segregated income and expenses based on the functional categories within the NERC Rules of Procedure. For example, functional category 300, Reliability Standard Development, included income and expenses for activities defined as functions required under section 300 of NERC's Rules of Procedure. Therefore, NPCC, NERC, and the Commission were able to identify and compare budgeted and actual amounts within each functional category.

For bookkeeping and accounting services, NPCC used Marks, Paneth, and Shron LLC (MPS) as its outside CPA firm since 2000. The NPCC Board annually renewed the services of MPS through an engagement letter and decided to keep the services in part due to independent auditors remarking to NPCC that the outside accounting service was a best practice and helped the external audits run more efficiently. NPCC paid MPS a monthly retainer fee for its accounting services. For services performed outside of the basic bookkeeping and accounting services outlined in the engagement letter, NPCC paid MPS monthly based on the cost of services performed. Audit staff reviewed the invoices for professional fees outside of the retainer provided by MPS from January to September 2012 and could not determine what services MPS provided and how MPS priced the services. Audit staff discussed the lack of information on the invoices with NPCC. NPCC stated it recognized the lack of detail in the MPS invoices and had requested MPS provide more detailed information on invoices in the future.

Most of NPCC's expenses were direct costs with an employee charging his or her designated program area for time worked. Indirect costs mainly accounted for general and administrative activities such as finance and accounting, legal and regulatory, and information technology that could not be traced directly to a functional area. NPCC allocated its indirect costs to functional categories based on FTEs within each program area.

D. Organizational Structure and Staffing

NPCC divided its CMEP functions into four different program areas, each having an AVP in charge of the program area. Those program areas and AVPs were: Reliability Standards, CORC (split between Registration and Enforcement and Audits and Investigations with one AVP for each), RAPA, and SAIS. The employees under each program area were strictly used in their designated program area and did not provide services across NPCC CMEP program areas, with the exception of the single employee with activities in TEOC and RAPA. Also, NPCC utilized contractors and consultants to carry out certain compliance activities. Each contractor or consultant had a yearly contract to provide services to NPCC when needed. NPCC paid these contractors and consultants an agreed-upon hourly rate, plus reimbursed these individuals for all travel and business-related expenses incurred when performing services for NPCC. The AVP of each program area was responsible for ensuring the contractors and consultants provided accurate time data to NPCC through monthly invoices. Only the CORC program area utilized contractors and consultants during the audit period.

To track and account for employee time, NPCC used both direct and indirect cost centers. The direct cost centers were mainly the direct programs included in the Business Plan and Budget while indirect cost centers included costs that could not be directly traced to a program area. Each employee's labor hours were set to default to their respective department within NPCC. NPCC's timesheets were static, and only allowed for the entry of time off. Time worked was automatically entered into the employee's assigned program area, regardless of the work performed by that employee during the pay period. NPCC did not track costs or employee time on a project basis. The costs for each program area were based on defaulted labor time and estimated expenses based on the previous year's data.

Audit staff obtained several organizational charts from NPCC in order to understand NPCC's management structure. The charts showed the corporate structure and staffing levels of NPCC with the CMEP functions in the five boxes to the left of the middle and the support functions in the five boxes to the right of the middle. The RE division and the CS division had the same breakdown of organizational charts, but with different numbers of FTEs. The boxes with numbers showed the number of FTEs from 2011 on the left and then the number of FTEs in 2012 on the right. All NPCC employees are dedicated to only one division, except the President and CEO and one administrative position who allocated portions of their time to both divisions. Going forward, two AVPs, along with all support staff positions, should be expected to allocate portions of their time to both divisions based upon FTEs.

Figure 1 displays NPCC's 2012 RE division organizational structure.

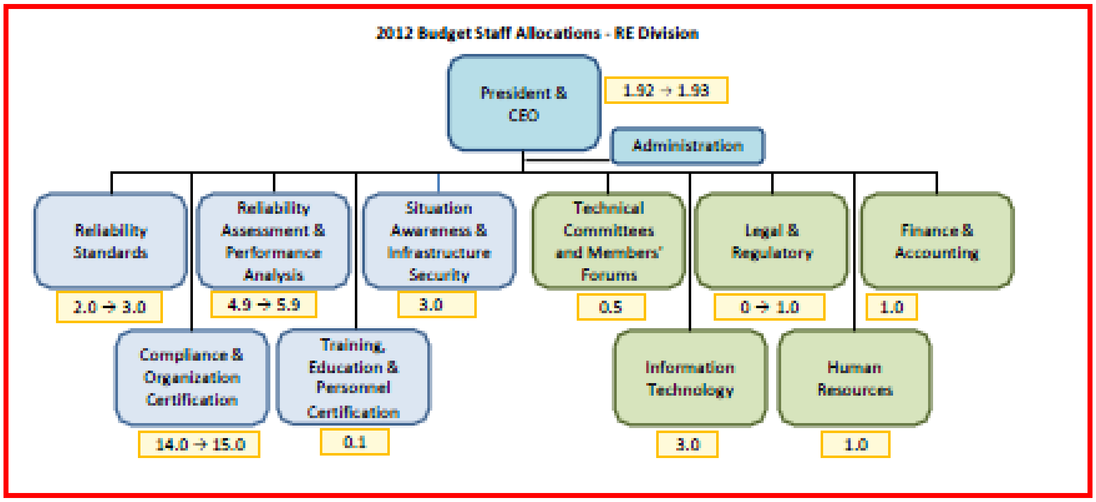
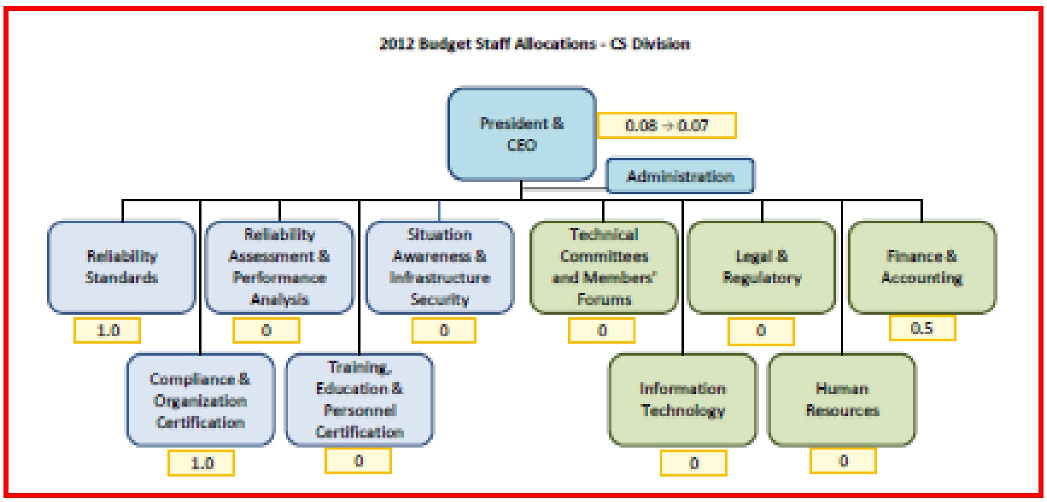


Figure 2 displays NPCC's 2012 CS division organizational structure.



E. Financial Policies and Procedures and Expense Approval

NPCC maintained policies and procedures for incurring and reviewing employee expenditures, credit card expenditures, and other invoices. These policies were maintained in NPCC's Internal Control Procedures, General Finance Policies, and Employee Handbook.

For travel expenses, NPCC's Internal Control Procedures provided guidance on employee monthly expense reporting, corporate credit card usage, and expense reviews by NPCC management. Policies and procedures for specific travel expenses such as rental cars, flights, and car services were maintained in the Employee Handbook. The

General Finance Policies provided additional guidance on management review of expenses.

Employees incurring expenses either paid for the expense out-of-pocket and submitted itemized receipts in the form of a monthly expense report, or used their personal NPCC credit card, which was paid monthly by NPCC for expenses incurred. Each AVP reviewed all employee expenses of employees for which the AVP supervised. That review entailed the AVP ensuring the expense was for a business purpose (i.e., the employee traveled to an audit and incurred applicable travel expenses) and that the expense was included in the correct account. Then, the Financial Analyst reviewed the expenses to ensure the expense was both properly accounted for and assigned to the correct program area. Finally, the VP and COO reviewed the expenses in total. Once approved by the VP and COO, the expense reports or credit card invoices were sent to MPS for recording, processing, and payment. MPS processed checks for NPCC and provided the checks to the President and CEO, and VP and COO, for signature and final payment authorization.

NPCC retained PricewaterhouseCoopers LLC (PwC) as its independent auditor during the audit period. PwC performed annual independent audits of NPCC's financial statements. The use of PwC was approved annually by the Finance and Audit Committee (FAC), a sub-committee of the Board. NPCC's independent Treasurer, who was a partner with MPS, chaired the FAC. The FAC was responsible for communicating with PwC and notifying the Board and NPCC of the results of the external audits.

F. Compensation Process

NPCC's Management Development and Compensation Committee (MDCC), a sub-committee of the Board, was responsible for making recommendations to NPCC and its Board regarding NPCC staffing and compensation. In 2007, NPCC contracted a compensation study to be performed for its President and CEO. NPCC used the results of this study as the basis for the President and CEO's total compensation during the audit period. For the remainder of the NPCC staff, NPCC used the compensation study of one of its registered entities to determine total staff compensation. NPCC divided staff into five pay bands with minimum and maximum salaries for each. Through employee qualifications and employee performance reviews, the MDCC determined where each employee fell within the pay band. In addition to employee salary, NPCC maintained a Variable Incentive Program (VIP) for at-risk compensation. At-risk compensation through the VIP was tied to employee performance and corporate goal achievement. The VIP was calculated annually through a formula taking into account employee salary, targeted at-risk percentages, corporate goal achievement, and individual employee performance ratings.

Corporate goals were established through the MDCC, which recommended the final corporate goals to the Board for final approval. The Board ensured that the corporate goals recommended were consistent with the long-term strategy of NPCC and were in line with approved work plans for each program area for the current year's Business Plan and Budget. The Board used the corporate goals to assess NPCC's annual performance and link employee performance and achievement of corporate goals to at-risk compensation.

G. Use of Independent Directors and Independent Board Chairman

NPCC retained two independent Directors and an independent Chairman on its Board. NPCC paid these Directors a retainer fee, plus any travel expenses and professional services incurred outside of the retainer contract. NPCC did not track these expenses for budgetary purposes. NPCC was transparent in including the retainer fees associated with the Board in its Business Plan and Budget. However, NPCC included all travel expenses incurred by the Independent Directors and the Chairman in the general NPCC Travel Account, Account 62000. Audit staff maintained that those expenses should be broken out of the general NPCC travel account for added transparency in the budget. In response to this accounting concern, NPCC created a subaccount for Account 62000 to break out Board travel expenses.

H. Funding Requirement

NPCC assessed and collected its funding requirement from its registered entities differently for the RE and CS divisions. For the RE division, the funding requirement was determined based on each BA's portion of total NEL for NPCC activities outside of compliance, plus the portion of compliance costs assigned to each BA through NPCC's audit-based methodology. For the CS division, the funding requirement was determined based on each BA's portion of total NEL for NPCC CS division activities. To collect its RE division funding requirement, NPCC reported to NERC the amounts needed from each of the six BAs within the region. Then, NERC billed the six BAs to collect the funding requirement. The BAs collected the funding requirement from NPCC registered entities and provided that funding to NERC, which then provided the funding requirement to NPCC on a quarterly basis. To collect its CS division funding requirement, NPCC directly billed and collected from the six BAs annually. To collect the CS division funding requirement, the BAs billed NPCC registered entities through a tariff mechanism.

III. Introduction

A. Objectives

The objectives of this audit were to determine NPCC's compliance with its responsibilities as an RE pursuant to: (1) the Delegation Agreement between the NERC and NPCC; (2) the NPCC Bylaws; and, (3) other obligations and responsibilities as approved by the Commission. Additionally, the audit evaluated NPCC's budget formulation, administration, and execution, and the resources used to achieve program results. The audit covered the period from August 23, 2006 to February 25, 2013. NPCC staff was cooperative in responding to audit staff's data and interview requests.

B. Scope and Methodology

The procedures audit staff performed to evaluate the adequacy of NPCC's compliance with its responsibilities as an RE and its formulation, administration, and execution of its budget included these actions:

- Reviewed publicly available materials on FERC's eLibrary for company filings, Commission orders and formal complaints, the Enforcement Hotline for complaints made against the company, and local newspapers, trade and academic press to identify significant developments and occurrences that arose during the audit period.

- Conducted a site visit to NPCC headquarters in New York, NY, from April 16-20, 2012, during which we interviewed NPCC management and staff to understand their job functions. During the site visit, audit staff obtained a thorough understanding of NPCC's policies, procedures, and practices related to its delegated functional responsibilities as an RE, and its business plan and budgeting process. Those employees interviewed included the President and CEO, VP and COO, Financial Analyst, the AVPs of each program area, and other NPCC staff members.

- Issued multiple data requests and reviewed emails and other records to test NPCC's compliance with its responsibilities as an RE. Audit staff also conducted numerous phone conferences to clarify data responses and seek additional information.

To facilitate its evaluation of NPCC as an RE, including its budget formulation, administration, and execution, audit staff conducted extensive reviews and testing relating to NPCC's policies and procedures. Specifically, audit staff conducted the following activities relating to the major subject areas of the audit:

Objectives of NPCC, its Delegated Responsibilities, and Functional Organization

- Reviewed NPCC's organizational chart to determine how the company is structured and its goals, business objectives, and key deliverables to facilitate discussions on how NPCC determined resources needed to achieve objectives;

- Examined how AVPs responsible for delegated responsibilities assessed and aligned resources to achieve program goals;

- Interviewed the President and CEO, along with other senior management, to understand NPCC's processes for setting organizational and individual goals, tracking progress toward goal achievement, and compensating for goal achievement; and

- Interviewed three Directors of the NPCC Board as well as NPCC's external CPA and Treasurer to obtain an understanding of the roles and responsibilities each had at NPCC, as well as the roles each played in the budget development and approval process.

Accounting and Recordkeeping

- Interviewed both RE and CS employees, specifically those involved in shared services and governance responsibilities;

- Observed and tested processes and methodology for recording and allocating shared costs between the RE and CS divisions;

- Reviewed NPCC's expenditure policies and procedures and then tested expenditures over a three-month period to determine if NPCC employees complied with the internal policies and procedures for both incurring and reviewing expenditures;

- Tested the timekeeping methods of NPCC employees to determine how the employees allocated their time between statutory and nonstatutory functions;

- Reviewed NPCC's policies and procedures on incurring expenses and the review of expenses from NPCC's Employee Handbook, Internal Control Procedures, and General Finance Policies;

- Examined NPCC's expenses in the form of employee expense reports and credit card statements for evidence of review by an NPCC employee and to determine if NPCC followed its policies and procedures for both incurring expenses and reviewing the incurred expenses;

- Reviewed invoices from NPCC's external accountant, MPS; and

- Reviewed NPCC's policies on educational reimbursement of employees from its Employee Handbook.

Budget Formulation, Administration, and Execution

- Reviewed processes and procedures NPCC used to develop its annual budget and how it identified resources to adequately achieve program goals and objectives;

- Reviewed NPCC's 2012 Business Plan and Budget submitted to NERC, which the Commission ultimately accepted;

- Interviewed those employees involved in formulating the budget to determine if policies and procedures were followed and if the budget process was efficient and effective;

- Reviewed NPCC's policies and procedures for monitoring its budget and conducting budget variance analyses throughout the budget year; and

- Reviewed the budget for areas of interest and performed testing on the budget implementation process to ensure that NPCC budgeted based on appropriate inputs and spent its funding requirement in an appropriate manner.

Situational Awareness and Event Analyses

- Sampled documentation of event analyses to review NPCC's involvement; and

- Reviewed procedures for participation in event analyses.

NPCC's Compliance with its CMEP

- Reviewed NPCC's policies and procedures for monitoring mitigation plans;

- Reviewed a sample of mitigation plans from registered entities to document NPCC's oversight and monitoring; and

- Tested a sample of mitigation plans for compliance with CMEP requirements related to mitigation plan processing and recordkeeping.

Staffing and Organizational Responsibilities

- Reviewed NPCC's Bylaws and held discussions with management to determine the process for evaluating and assessing employee performance, compensation, benefits, and incentives;

- Reviewed job descriptions and compensation studies and conducted interviews to evaluate NPCC's processes for employee placement within program areas;

- Reviewed NPCC's policies and procedures for employee tuition reimbursement; and

- Reviewed the employee performance evaluation process and examined how it tied to the VIP allocation process.

NPCC's Funding and Assessment Mechanisms

- Reviewed NPCC's cost allocation methodology to determine if it properly assessed its registered entities their share of NPCC's funding requirements, if the inputs to the cost allocation methodology were accurate, and if the cost allocation methodology process was transparent to the Commission in the Business Plan and Budget filing;

- Assessed NPCC's funding mechanism to determine if NPCC properly collected funds from its registered entities for statutory and nonstatutory activities;

- Reviewed annual billings sent to the six BAs for NPCC's CS division funding requirement;

- Reviewed the applicable tariff provisions for NYISO and ISO-NE collection of NPCC's funding requirement from their load-serving entities; and

- Evaluated the efficiency and transparency of NPCC's billing processes and procedures.

IV. Conclusions and Recommendations

1. Cost Allocation Methodology

Audit staff had the following concerns with the method NPCC used to allocate costs related to its compliance and enforcement services provided to U.S. and Canadian entities:

- NPCC did not use actual cost or employee time data or a representative study of such data when developing its cost allocation methodology for the total compliance and enforcement costs allocated to U.S. and Canadian BAs.

- While NPCC performed audits of the BAs for the provinces of Ontario and New Brunswick, it did not assign any costs to these particular entities when using an audit-based methodology to assign a portion of its cost of compliance and enforcement services it provided to registered entities. This omission of assigned costs led to an annual over-billing of the other four BAs within the region of approximately $160,000 in 2012.

- NPCC used different NEL data in determining assessments for compliance services and other services in its 2011 and 2012 budget filings, which resulted in one BA being over-billed approximately $27,000 while another BA was under-billed by the same amount.

Pertinent Guidance

In its October 16, 2008 order on NERC's 2009 Business Plan and Budget, the Commission stated:

> NERC's filing is not clear regarding how it plans to apply an audit-based methodology to allocate "excluded" costs among the U.S. balancing authorities within NPCC. In particular, the filing does not explain whether this results in a deviation from the approved Net Energy for Load methodology. If that is in fact the intent, NERC and NPCC have not provided an explanation or justification for the deviation from the approved allocation methodology. Accordingly, the Commission directs NERC and NPCC to submit in the compliance filing an additional explanation of how the balance of the costs for the NPCC compliance and enforcement, i.e., the excluded costs from the IESO and Québec assessments, will be allocated to entities within the

> U.S. Further, any proposed deviation from the approved Net Energy for Load methodology must be justified.[7]

In its July 16, 2009 Budget Compliance Order, the Commission stated:

> Accordingly, the Commission directs NERC and NPCC to determine the cost of NPCC services provided to both United States and Canadian entities. The Commission is not rejecting the use of NPCC's "composite cost allocation" methodology in order to determine the proportional cost between the U.S. and Canada. However, using the derived U.S. portion of the total amount for such costs, NERC and NPCC must apply and assess fees to entities in the United States using the approved NEL apportionment method.[8]

In its October 15, 2009 Order on NERC's 2010 Business Plan and Budget, the Commission stated:

> According to NERC and NPCC, the portion of costs allocated to the U.S. using the audit-based methodology is then allocated between the New York and New England balancing authority areas based on net energy for load. Table 6 of NPCC's 2010 business plan and budget provides detailed information regarding cost allocation for the NPCC Compliance Program. It is unclear from this table that … NPCC used the net energy for load methodology to allocate compliance costs in the U.S. portion of the region. In particular, Column D-2 of Table 6 suggests that NPCC applied an audit-based allocation methodology throughout the entire NPCC region. Accordingly, the Commission directs NERC and NPCC to submit in the compliance filing an explanation of Table 6 and the application of net energy for load in allocating Compliance Program costs within the U.S. portion of the NPCC region. Specifically, the explanation should include the 2010 net energy for load calculations and allocations to load serving entities (or designees) for the Compliance Program assessments.[9]

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[7] *N. Am. Elec. Reliability Corp.*, 125 FERC ¶ 61,056 at P 67 (2008) (2009 Budget Order), *order granting clarification*, 126 FERC ¶ 61,021 (2009) (2009 Budget Clarification Order), *order on compliance*, 128 FERC ¶ 61,025 (2009) (2009 Budget Compliance Order).

[8] 2009 Budget Compliance Order at P 41.

[9] *N. Am. Elec. Reliability Corp.*, 129 FERC ¶ 61,040 at P 17 (2010) (2010 Budget Order).

Background

NPCC had six BAs within its region, two in the United States and four in Canada. Other than compliance and enforcement services, NPCC provided services equally for the six BAs. For these services, NPCC collected funding based on each BA's percentage of total NEL within the region. However, for compliance and enforcement services, NPCC collected funding based on a cost allocation methodology to reflect the differences in compliance and enforcement services provided to the BAs. To determine the cost allocation methodology, NPCC compliance and enforcement staff reviewed its total compliance and enforcement services provided and determined which services were shared among all BAs, and which services were exclusive to specific BAs. Based on that review, NPCC determined that all six BAs received forty percent of compliance and enforcement services; the remaining sixty percent of compliance and enforcement costs were for audits performed and applied to four BAs (NYISO, ISO-NE, Québec, and Nova Scotia). The NPCC Board, with input from the registered entities within the region, approved this 60/40 split of compliance and enforcement costs on July 28, 2011.

The sixty percent of costs that NPCC determined were for audits performed within four BAs were allocated to those BAs based on an audit-based methodology. This audit-based methodology was calculated by determining the number of entities within each BA, the size of those entities, and the functions for which each entity was registered. This data allowed NPCC to determine the frequency by which it would audit the registered entities within each BA. Then, NPCC estimated the cost for each type of audit to be performed and determined the total percentage of audit costs for each BA among the four BAs that NPCC's compliance and enforcement function audits. Once the sixty percent of compliance and enforcement audit costs were allocated based on audits, NPCC billed the U.S. BAs based on NEL for each BA's portion of costs allocated using the audit-based methodology.

In its orders in review of various NPCC business plans and budgets and other compliance filings, the Commission maintained it was not clear how the audit-based methodology was applied, and that NPCC must justify the cost allocation of its compliance and enforcement services.

Audit staff reviewed the allocation of costs to the BAs within NPCC, paying particular attention to allocation of compliance and enforcement costs using the audit-based methodology. As a result of this review, audit staff identified three concerns: (1) NPCC did not use actual cost or employee time data or a representative study of such data when developing the 60/40 allocation of compliance and enforcement costs; (2) NPCC omitted audit costs for two BAs when using its audit-based methodology, which led to the over-billing of four BAs; and (3) NPCC used incorrect NEL data to calculate the compliance and enforcement assessments which led to over- and under-billing of the U.S. BAs.

Cost Allocation Method – Compliance and Enforcement Costs

When NPCC performed its review of its compliance and enforcement services to determine its cost allocation to U.S. and Canadian BAs, it used estimates instead of actual cost and employee time data, or a representative study of actual cost or employee time data. This review of services conducted by NPCC compliance and enforcement staff focused on four sub-categories of the compliance and enforcement program:

- Compliance Implementation and Registration. Services under this sub-category included: registered entity outreach and functional verification; development, maintenance, and implementation of the CMEP; processing of self-reports, self-certifications, periodic data submissions, and complaints; registered entity asset verification and asset database management; Compliance Data Administration Application development and maintenance; and certification of newly identified transmission operators.

- Compliance Audit Program and Compliance Investigations. Services under this sub-category included: conducting compliance audits and spot checks; processing Technical Feasibility Exceptions; and conducting compliance investigations.

- Compliance Enforcement. Services under this sub-category included: possible, alleged, and confirmed violation monitoring, assessment, tracking, and evaluation; mitigation plan processing and review; processing of Remedial Action Directives and Administrative Citations; development of disposition documents, and hearing process reviews.

- NERC Coordination Activities. Services under this sub-category included: participation in five different NERC working groups related to audits and spot checks; certification and registration; enforcement activities; compliance information processing; implementation of CIP Reliability Standards; and participation in the stakeholder Compliance and Certification Committee.

NPCC reviewed the services it provided under each sub-category, estimated the total cost of each sub-category as a percentage of the total program cost, and then estimated the percentage of each sub-category cost for services that applied to all six BAs. However, it did not use actual data or a representative study of actual data to establish this allocation percentage (40 percent). Instead, it used estimates to establish the 60/40 split of its compliance and enforcement costs. Specifically, NPCC determined that forty percent of its compliance and enforcement costs were for services performed for all six BAs; the remaining sixty percent of compliance and enforcement costs were applied audits performed for four BAs (NYISO, ISO-NE, Québec, and Nova Scotia). NPCC should have determined the allocation of compliance and enforcement costs to the

U.S. and Canadian BAs by using actual cost and employee time data or a representative study of such costs.

Audit-Based Cost Allocation Method – Compliance and Enforcement Costs

As explained above, NPCC estimated that forty percent of its compliance and enforcement costs were for services provided to all six BAs and that sixty percent of its compliance and enforcement costs were for audits performed for four BAs. These four BAs were allocated those audit costs based on NPCC's audit-based methodology. The other two BAs (Ontario and New Brunswick) were not allocated any portion of the audit costs using NPCC's audit-based methodology. However, audit staff determined that NPCC conducted audits of the Ontario and New Brunswick BAs. Therefore, NPCC included incorrect costs in its 60/40 allocation of compliance and enforcement costs. The cost of the audits performed in Ontario and New Brunswick should have been included in the 60 percent allocation that is allocated to the BAs using NPCC's audit-based methodology instead of in the forty percent allocation. With these audit costs being omitted from the audit-based methodology calculation, the four BAs being assessed costs under the audit-based methodology overpaid for those costs. If NPCC included the cost of the audits performed in Ontario and New Brunswick, it would have lower audit cost percentages assigned to the other four BAs under the audit-based methodology. Instead, the over-billing of four BAs by NPCC caused those BAs to incorrectly absorb costs of the audits performed for the other two BAs. Audit staff estimated that the four BAs were over-billed approximately $160,000 in 2012.

NPCC must ensure that it makes accurate billings to each BA so that each BA pays its fair share of costs associated with NPCC's services. Further, NPCC must ensure that the audit-based methodology reflects audits performed for entities within all BAs in the region.

Incorrect NEL Data

NPCC used NEL to allocate its costs for services performed other than compliance and enforcement services. Also, NPCC used NEL to allocate the U.S. BAs' portion of audit costs assigned to those BAs based on the audit-based methodology. In review of the calculations NPCC used to determine its funding requirement of both compliance and enforcement services and services other than compliance and enforcement, audit staff found that NPCC used inconsistent NEL data in its calculation of compliance and enforcement cost allocation. In the 2011 and 2012 budgets, NPCC used outdated NEL data when calculating the compliance and enforcement funding requirement, while it used current year NEL data for determining its funding requirement for services other than compliance. Audit staff found that NPCC used outdated NEL data as the result of an oversight when it compiled its internal budget model spreadsheet. The use of incorrect NEL data for the compliance and enforcement funding requirement in 2011 and

2012 led to inaccurate billings to the BAs. This resulted in one BA paying more than its fair share of compliance and enforcement costs while another BA paid less than its fair share of these costs. Based on audit staff's recalculation of the allocation of compliance and enforcement costs using the correct NEL data, audit staff determined that the over- and under-billing amounted to $27,000. As a result of the audit, NPCC reconfigured its budget model to ensure that accurate NEL data is used for all services it provides.

Recommendations

Audit staff recommends that NPCC:

1. Conduct a review of the time and resources dedicated to the areas of NPCC's compliance and enforcement program to develop a cost allocation methodology that tracks the actual cost of performing these services.

2. Modify the audit-based cost allocation methodology so that the methodology accurately reflects the audits expected to be performed.

3. Develop a review procedure to ensure that all NEL data is updated to ensure accuracy in NPCC's Business Plan and Budget.

4. Determine the amount of over- and under-billings that occurred during the audit period as the result of certain audits not being included in the 60/40 split and the use of incorrect NEL data, and make the appropriate billing adjustments to the BAs.

Corrective Action

During the course of audit fieldwork, NPCC made the following corrective action to address audit staff's recommendation 3:

1. Updated the budget model to include formulas that ensure the proper NEL data is used.

2. Identification and Budgeting of Nonstatutory Activities

NPCC did not perform detailed time tracking or conduct time studies of employees' time spent on statutory RE activities and nonstatutory CS activities. Therefore, NPCC could not easily determine how much time employees actually spent on statutory and nonstatutory activities.

Pertinent Guidance

The FPA, as amended by the Energy Policy Act of 2005, added section 215 on Electric Reliability. Section 215(c)(2) states the Commission may certify an entity as an ERO if, among other things, the Commission determines that the ERO "... has established rules that allocate equitably reasonable dues, fees, and other charges among end users for all activities under this section."[10] Section 215(e)(4) empowers the Commission to authorize the ERO to enter into an agreement to delegate authority to a regional entity if, among other things, the RE satisfies the provisions of section 215(c)(2).

Background

NPCC budgeted two employees full-time, and allocated a portion of two other employees' time, to the CS division, which was nonstatutory. Through its review of the NPCC organizational chart and interviews conducted onsite, audit staff identified an additional eight employees supporting nonstatutory activities whose time was entirely being charged to statutory functions in the RE division.

NPCC used a monthly timesheet process where the timesheet automatically populated the employee's time to that employee's dedicated program area. NPCC did not track the actual hours spent on projects or statutory or nonstatutory work. Those employees whose time was allocated between divisions had their timesheets automatically allocated to each division based on a pre-determined allocation percentage. Employees only made changes to their timesheets based on holidays, vacation, and leave taken.

While onsite, audit staff expressed concern to NPCC about the allocation of employees' time between the RE and CS divisions. Based on audit staff's concern, NPCC conducted a review of every employee's time and determined that additional employees should have allocated their time between the RE and CS divisions. In addition to those employees already allocating time to the CS division, NPCC proposed allocating the time of two AVPs and the entire administrative staff between the RE and CS divisions based on the number of FTEs in each division.

[10] 16 U.S.C. § 824o (2012).

Audit staff maintained that allocating time between divisions based on the number of FTEs without tracking actual time spent supporting each division or performing a representative time study did not give an accurate representation of the time each employee spent supporting the RE and CS divisions. Since NPCC did not perform detailed time tracking or conduct time studies of employees' time spent on RE and CS activities, it could not easily determine how much time employees actually spent on statutory and nonstatutory activities. Strengthening timekeeping procedures would have allowed NPCC access to more accurate information and allowed NPCC to better budget for statutory and nonstatutory activities. NPCC should have been allocating time between divisions based on actual work performed for each division and not based on budget estimates of employee time supporting each division.

Recommendations

Audit staff recommends that NPCC:

5. Conduct periodic time studies to determine a more accurate allocation of every NPCC employee's time between NPCC's RE and CS divisions.

6. Implement time tracking to accurately monitor the time spent on RE and CS activities.

7. Strengthen its policies and procedures governing employee time reporting and tracking.

3. Mitigation Plan Processing

Although audit staff believed that NPCC had adequate processes and procedures for tracking, reviewing, and monitoring mitigation plans, NPCC should enhance these processes and procedures as necessary to ensure it is able to meet the CMEP deadlines. Audit staff found on occasion that NPCC missed certain CMEP deadlines for handling mitigation plans.

Pertinent Guidance

In its June 17, 2007 order clarifying NERC procedures on mitigation plans, the Commission noted that "where a user, owner or operator of the Bulk-Power System is found by NERC to be in noncompliance with a Reliability Standard, NERC's Rules of Procedure require that entity to submit to NERC for approval a mitigation plan with a timeline addressing how the noncompliance will be corrected."[11]

In its July 3, 2008 Guidance Order on Reliability Notices of Penalty, the Commission stated that the REs and NERC have responsibility for reviewing proposed mitigation plans to ensure that they will bring a registered entity back into compliance within a reasonable time. Specifically, the Commission stated that it "believes that it is important for Regional Entities to document how they verify a registered entity's certification that it has timely completed a mitigation plan and thereby attained compliance with the applicable Reliability Standard requirements. In future filings, we expect Regional Entities to provide specific information on how they verified that registered entities completed on time mitigation plans to bring themselves into compliance."[12]

CMEP, section 6.3 states in part:

> A request for an extension of any milestone or the completion date of the accepted Mitigation Plan by a Registered Entity must be received by the Compliance Enforcement Authority at least five (5) business days before the original milestone or completion date. The Compliance Enforcement Authority may accept a request for an extension or modification of a Mitigation Plan if the Compliance Enforcement Authority determines the request is justified, and shall notify NERC of the extension or modification within five (5) business days.

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[11] *North American Electric Reliability Corp.*, 119 FERC ¶ 61,274 at P 5 (2007).

[12] *Guidance on Filing Reliability Notices of Penalty*, 124 FERC ¶ 61,015 at P 37 (2008).

CMEP, section 6.5 states, in part:

> Unless extended by the Compliance Enforcement Authority, it will complete its review of the Mitigation Plan, and will issue a written statement accepting or rejecting the Mitigation Plan, within thirty (30) days of receipt; otherwise the Mitigation Plan will be deemed accepted.
>
> Regional Entities will notify NERC within (5) five business days of the acceptance of a Mitigation Plan and will provide the accepted Mitigation Plan to NERC.

CMEP, section 6.6 states:

> The Registered Entity shall provide updates at least quarterly to the Compliance Enforcement Authority on the progress of the Mitigation Plan. The Compliance Enforcement Authority will track the Mitigation Plan to completion … After a registered entity provides a certification of completion of its mitigation plan, the Compliance Enforcement Authority shall request such data or information and conduct follow-up assessments, on-site or other Spot Checking, or Compliance Audits as it deems necessary to verify that all required actions in the Mitigation Plan have been completed.

Background

NERC required registered entities within the NPCC region that were found to be in noncompliance with a NERC reliability standard to file with NPCC a proposed mitigation plan to correct the violation or a description of how the violation had been mitigated, and file any requests for extensions of mitigation plans or a report of completed mitigation. A mitigation plan provided specific actions or tasks that a registered entity proposed to implement to correct a violation. As such, it was beneficial to the reliability of the BPS that registered entities act quickly to implement mitigation measures and comply with NERC reliability standards. NPCC was responsible for reviewing and accepting proposed mitigation plans, as well as tracking, monitoring, and verifying their completion. Similar to registered entities, the BPS benefitted when NPCC acted promptly to ensure registered entities implemented mitigation measures to comply with NERC reliability standards.

Audit staff reviewed and tested NPCC's policies and procedures for processing mitigation plans within the deadlines set by the NERC CMEP. Audit staff analyzed NPCC's review of mitigation plan milestones and quarterly reports and the dates involved with the submission of mitigation plans to NPCC by the registered entities, NPCC's acceptance or rejection of proposed mitigation plans, and NPCC's notification to

NERC of its acceptance of mitigation plans. Audit staff obtained key mitigation plan processing dates for all 169 filed, in process, and completed mitigation plans from January 2011 through May 2012 to test for compliance with CMEP sections 6.3, 6.5, and 6.6. Audit staff sampled 30 of 169 mitigation plans (a seventeen percent sample) from January 2011 through May 2012 to test NPCC compliance with the CMEP. Audit staff chose the January 2011 through May 2012 test period in an effort to test the most current procedures for processing mitigation plans.

Through its review and sampling of mitigation plans, audit staff determined a few weaknesses in NPCC's policies and procedures for mitigation plan processing. While audit staff believed these weaknesses did not have a materially adverse impact upon reliability in the region, addressing these issues in mitigation plan processing should strengthen NPCC's compliance and enforcement program. Audit staff describes its specific concerns regarding NPCC's mitigation plan processing below.

Quarterly Monitoring of Mitigation Plan Milestones by NPCC

NPCC did not have processes in place to track its registered entities' quarterly submission for mitigation plan activity. NPCC's Compliance Issue Tracking System (CITS) software did not have a flag or reminder in place for NPCC compliance and enforcement staff to review quarterly mitigation plan update submissions. While onsite, audit staff reviewed the CITS software with NPCC staff and noted the system did not have a reminder for the quarterly review. NPCC staff stated that it did not review, track, or monitor its registered entities' quarterly reports on mitigation plan milestone completion.

CMEP section 6.6 required registered entities to submit updates at least quarterly to NPCC on the progress the registered entity made in its completion of its mitigation plan. Section 6.6 also required NPCC to review those quarterly mitigation plan updates. According to the CMEP, NPCC was required to track the registered entity's mitigation plan to completion and could have checked up on the plan through site visits or audits to monitor the plan through the process. Closely monitoring quarterly submissions will further enhance the NPCC CMEP program and regional reliability.

NPCC's Acceptance or Rejection of Mitigation Plans

In audit staff's sample of mitigation plans, audit staff found four instances out of 30 mitigation plans sampled where NPCC did not accept or reject proposed mitigation plans within 30 days of the submittal of the final mitigation plan by the registered entity. CMEP section 6.5 required NPCC to submit a written statement of acceptance or rejection of a mitigation plan within thirty days of the submittal of that plan, unless NPCC took action to extend the 30-day period. Audit staff's testing of NPCC's mitigation plan processing for this CMEP requirement showed that NPCC did not accept or reject proposed mitigation plans by the deadline established in the CMEP in four instances. Under CMEP section 6.5, NPCC was deemed to have accepted these mitigation plans, a status that might not have been appropriate had the plans been substantively reviewed. NPCC should address and strengthen its policies and procedures to put in place the appropriate compliance measures to ensure CMEP deadlines are met.

NPCC's Notification to NERC of its Acceptance of Mitigation Plans and Mitigation Plan Milestone Extension Requests

In audit staff's sample mitigation plans, audit staff found five instances out of 30 mitigation plans sampled where NPCC did not notify NERC on time of its acceptance of mitigation plans. CMEP section 6.5 required NPCC to notify NERC of its acceptance of mitigation plans within five days of the acceptance. NPCC's late notifications to NERC found by audit staff were not extremely late or widespread among all mitigation plans. While NPCC had policies and procedures in place to ensure it complied with this deadline set by the CMEP, it did not consistently adhere to those policies and procedures when processing the mitigation plans. NPCC should strengthen its policies and procedures for mitigation plan processing to ensure timely notifications are made to NERC.

Additionally, audit staff found two instances out of 30 mitigation plans sampled where NPCC accepted a mitigation plan milestone extension request, but did not notify NERC within the required deadline period. Section 6.3 of the NERC CMEP required NPCC to notify NERC of its acceptance of mitigation plan milestone extension requests within five days of granting the request. While NPCC had policies and procedures in place to ensure it complies with this deadline set by the NERC CMEP, it did not always adhere to those policies and procedures. NPCC should strengthen its policies and procedures and ensure it timely notifies NERC of all required mitigation plan information.

Recommendations

Audit staff recommends that NPCC:

8. Strengthen its policies and procedures to ensure that it tracks and monitors all mitigation plan milestones to completion and timely reviews registered entities' quarterly mitigation plan update submissions.

9. Strengthen its policies and procedures to ensure it meets required mitigation plan processing deadlines set by the NERC CMEP.

Corrective Actions

During the course of audit fieldwork, NPCC made the following corrective actions to address audit staff's recommendations 8 and 9:

2. Updated its software to provide mechanisms to notify both NPCC and the affected registered entities of mitigation plan milestone quarterly report submission deadlines.

3. Updated its internal policies and procedures to place emphasis on adhering to the mitigation plan processing deadlines set by the CMEP.

4. Expense and Reimbursement Policies

NPCC should enhance its existing internal policies and procedures for expenses and reimbursements to ensure it:

- Increases its level of review of employee expenses for compliance with internal policies and procedures.
- Evaluates and reviews its expenses to determine cost effectiveness, and that a clear standard of reasonableness is followed.
- Consider establishing criteria linking employees receiving educational reimbursement to employee retention with NPCC.

Pertinent Guidance

18 C.F.R. § 39.4 sets out the requirements for funding an ERO. Specifically, section 39.4(b) states, in part:

> The Electric Reliability Organization shall file with the Commission its proposed entire annual budget … explaining the proposed collection of all dues, fees and charges and the proposed expenditure of funds collected in sufficient detail to justify the requested funding collection and budget expenditures.

NPCC maintains two internal documents (the NPCC Employee Handbook and the NPCC Internal Control Procedures) that provide policies on the incurrence and reimbursement of employee expenses. Policies included in those documents include:

- Travel-related expenses are to be detailed on the company travel reimbursement form. Whenever possible, receipts should accompany the form.
- If you incur expenses while traveling with other NPCC employees, the most senior-level employee present is responsible for paying for the expenses.
- All personnel will travel economy class, unless otherwise authorized by your supervisor.
- If business travel is required, you may rent a car. An economy or compact size car shall be your first choice in obtaining a rental car. NPCC will pay any required deductibles and also provides insurance coverage while driving a

rented vehicle on company business. You are, therefore, requested to decline both the Collision Damage Waiver (CDW) and the Personal Accident Insurance (PAI). If you do not decline, you will be responsible for the cost of these coverages.

- You are expected to use a personal car or public transportation for travel to the regional airports or train stations when traveling for NPCC.

- You may use taxis to area train stations if parking space is not available for your car at the station. You may use other car services, such as limousines and shuttles, to airports only if: (1) the weather is severe and/or you do not believe you can transport yourself safely; or (2) the total cost of the service is less than the total cost of the mileage reimbursement, parking, and tolls to and from the airport.

- All expense reports are due on a monthly basis, following the corporate credit card cycle which closes the 7th of each month, or the next business day if the 7th falls on a weekend or holiday. Approved expense reports are paid at the end of each month, in conjunction with payroll. All travel related expenses below seventy-five dollars and zero cents ($75.00) consistent with IRS code do not require a receipt, although individual receipts at all levels are preferred, provided the expense report is submitted within twenty (20) business days of trip completion. All other expenses must be supported by a receipt with a detailed description. Expense reports are to be completed through the online expense form, concurred and approved by their supervisor. Upon their approval, the Budget Analyst performs a final accounting review. The Budget Analyst processes all current period expense reports for payment. After the expense reports are processed by accounting, the Vice President and COO performs a review of all expense reports. The President's expense report is submitted to and approved by an officer.

Background

Audit staff reviewed policies from NPCC's Employee Handbook and Internal Control Procedures on travel and business expenses and found those policies and procedures to be largely adequate. In order to test these policies, audit staff sampled NPCC expense documentation and support for a three-month period: December 2010 through February 2011. Data sampled by audit staff included employee credit card statements, employee monthly expense reports, and employee receipts. Audit staff examined this employee expense data for compliance with NPCC's internal policies and procedures and for the cost-effectiveness and reasonableness of the expenses. Audit staff also examined the expenses for evidence of review by an NPCC employee and to determine if NPCC followed its policies and procedures for both incurring the expenses and reviewing the incurred expenses. Also, audit staff reviewed NPCC's employee handbook for its policy on educational reimbursement of employees. This policy described the nature of the benefit and the requirements of the employee to participate in the program.

As explained below, the level by which NPCC reviewed employee expenses at times was not consistent. In addition, audit staff noted certain expenses that did not comply with NPCC policies and procedures. Also, the policies and procedures did not provide enough guidance to NPCC employees about what constitutes a cost-effective and reasonable expense. Audit staff noted during its review of these expenses that NPCC did not flag the expenses as noncompliant with internal policies and procedures or as unreasonable. Also, audit staff found a lack of consistent documentation to support management review of expenses and supporting receipts not included with employee expense reports. Finally, audit staff examined NPCC's educational reimbursement program and found that there were no service requirements for employees participating in the program.

NPCC's Internal Policies and Procedures on Expenses

NPCC maintained policies and procedures that provided guidelines for documenting expenses and incurring travel expenses such as car rentals, flights, hotels, and car services. While audit staff believes NPCC has adequate policies and procedures in place for travel and business expenses, audit staff found some instances where employees did not comply with these internal policies and procedures. In instances where employees did not follow the internal policies and procedures for travel and business expenses, NPCC did not catch the noncompliant expenses through its review process. NPCC reviewed the expenses to ensure the expenses were for business reasons and accounted for correctly, but did not ensure the expenses complied with the internal policies and procedures. The current internal policies and procedures at NPCC were effective in stipulating cost-saving practices and proper documentation for employee travel and business expenses. However, these policies were not always followed, and when the policy was not followed, the review process was not effective at catching the noncompliant expense.

NPCC's Employee Handbook section on travel expenses stated that: "All personnel will travel economy class, unless authorized by a supervisor." In audit staff's review of employee expenses, audit staff found six invoices out of 120 invoices for airline travel in a three-month period where NPCC employees either flew above economy class, purchased flight upgrades, or purchased extra legroom. None of these expenses were flagged by NPCC review, nor was any documentation of authorization by a supervisor provided. Also, NPCC's Employee Handbook provided policies for car rentals and stipulated that: "[E]conomy or compact car shall be your first choice." Additionally, the document stipulated that employees must decline the Collision Damage

Waiver and Personal Accident Insurance when renting a car. In audit staff's review of expenses, it found rental car expenses that did not comply with either requirement. Audit staff found two instances out of forty car rentals in the three-month sample period where an NPCC employee rented a noneconomy or compact car; also, one employee did not decline the Collision Damage Waiver and Personal Accident Insurance. Finally, the Employee Handbook allowed for the use of car services by NPCC employees in only two cases: (1) bad weather; and (2) if the cost of the car service was less than both a taxi service and driving a personal vehicle at the standard mileage rate and parking at the destination. Audit staff found numerous employees utilizing car services, mainly to and from the airport. NPCC stated that the use of car services was a sound business expense as it allowed the employee to work while in transit. Audit staff asked if any cost-benefit analyses had been performed by employees to document the use of car service satisfying the policy on the use of car services. NPCC stated that no such analyses had been performed.

Evaluation of Employee Expenses for Cost Effectiveness and Reasonableness

NPCC's policies and procedures in place for employee expenses do not specify a reasonableness criterion. NPCC stated that its management encouraged employees to limit expenses and promoted cost efficiency; however, NPCC stated that it had not flagged any expenses as excessive or unreasonable during the audit period. Audit staff tested expenses in order to determine if the expenses fell in line with NPCC's emphasis on cost effectiveness and reasonableness. In a few limited instances, audit staff identified meal, hotel, car rental, phone bills, and airfare that probably should have been flagged by NPCC management for further review to determine whether some or all such costs should be approved because the costs for these items seemed in excess of the norm.

Audit staff believes that NPCC must strengthen its existing policies and procedures for monitoring of such expenses identified above to ensure that it only reimburses employees for reasonable expenses. Also, NPCC should enhance its existing policies and procedures to provide the necessary guidelines for recovery of expenses.

Educational Reimbursement Retainer

NPCC had policies and procedures in place to provide educational reimbursement for its employees. The policy provided that NPCC will reimburse the employee for satisfactorily completing a course or program meant to enhance the performance of the employee in his or her assigned duties. However, NPCC did not place service retainers on employees receiving educational reimbursement for degree programs. Audit staff was concerned that employees could have NPCC fund their education, and then leave the organization at any time since no service retainer clause was placed upon the employee. NPCC's employees are a significant resource and pivotal to NPCC ensuring reliability and the loss of highly qualified employees after substantial investment in their educations could lead to decreased efficiency within NPCC and possibly decreased reliability within the region. Therefore, audit staff believed that employees should have a retainer placed upon them for continued service with NPCC for a set period of time following the completion of the degree program for which NPCC reimbursed the employee. After discussions with audit staff, NPCC updated its policies and procedures on educational reimbursement for employees by instituting a continued service requirement.

Recommendations

Audit staff recommends that NPCC:

10. Ensure all employees follow the policies and procedures in place with regard to incurring travel and business expenses, and providing proper documentation of expenditures.

11. Strengthen its review process for employee expenditures to ensure compliance with internal policies and procedures.

12. Revise its policies and procedures for expenses to include a definition of reasonableness for expenses. Also, revise policies and procedures to include procedures for monitoring employee expense reports for unreasonable or excessive items.

13. Consider revising its policies and procedures to determine if it is appropriate to place a service requirement on employees receiving educational reimbursement.

Corrective Actions

During the course of audit fieldwork, NPCC made the following corrective actions to address audit staff's recommendations 12 and 13:

4. Revised its expense policies and procedures to formalize its reasonableness stipulation and strengthen its review process to monitor for unreasonable or excessive expenses.

5. Updated its policies and procedures on educational reimbursement for employees by instituting a continued service requirement when NPCC has sponsored a degree program.

5. Employee Compensation Studies

During the course of the audit, audit staff was encouraged that NPCC entered into a contract with a third party to perform a total compensation study to support the salaries and benefits of certain employees. Prior to this decision, NPCC had only performed a compensation study for its President and CEO position. For all other positions, NPCC relied on results provided by an NPCC registered entity, which did not include the data and comprehensive information used to arrive at the final pay band levels.

Pertinent Guidance

In Order No. 672, FERC stated, in part:

> The ultimate success of the ERO will depend on whether a Regional Entity has adequate funding to carry out its delegated responsibilities. … While a Regional Entity will be able to perform other activities that do not conflict with its delegated functions, periodic … audits will be required to ensure that any ERO-approved funding is appropriately expended for delegated functions. [13]

18 C.F.R. § 39.4 sets out the requirements for funding an ERO. Specifically, section 39.4(b) states, in part:

> The Electric Reliability Organization shall file with the Commission its proposed entire annual budget … explaining the proposed collection of all dues, fees and charges and the proposed expenditure of funds collected in sufficient detail to justify the requested funding collection and budget expenditures.

Background

After the Commission certified NPCC as an RE in 2006, NPCC hired an outside consultant, Hay Group, to complete a total compensation study for the President and CEO's compensation. Hay Group performed this study in 2007, and since then, NPCC had not conducted any compensation studies, either internally or externally, for either the President and CEO or other NPCC employees.

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[13] *Rules Concerning Certification of the Electric Reliability Organization; and Procedures for the Establishment, Approval, and Enforcement of Electric Reliability Standards*, Order No. 672, FERC Stats. & Regs. ¶ 31,204 at P 227, 229, *order on reh'g*, Order No. 672-A, FERC Stats. & Regs. ¶ 31,212 (2006).

NPCC's MDCC was responsible for making recommendations to NPCC and its Board regarding NPCC staffing and compensation. Although NPCC used an external consultant to recommend compensation for its President and CEO, NPCC and the MDCC used other sources of information to make annual compensation recommendations for other positions to the Board. NPCC obtained its primary source of information to develop compensation for positions, other than the President and CEO, from an NPCC registered entity. This registered entity offered NPCC the results of its own compensation study performed, which included an aggregation of five different vendors' results. NPCC's compensation levels paralleled the compensation paid to similar positions of the registered entity, as NPCC believed it was similarly situated geographically to this registered entity, and its employees performed similar duties to those of the registered entity. It was the belief of NPCC and its Board members that using compensation study results from an NPCC registered entity provided a cost effective way to determine and assess compensation levels.

Although NPCC did not have access to the complete results of the registered entity's compensation study, NPCC did get copies of the pay bands for various positions, which the MDCC considered when making recommendations. During the audit, NPCC contracted with a vendor to conduct an independent total compensation study for the President and CEO, VP and COO, and all NPCC AVPs.

Audit staff acknowledges NPCC's progress in assessing compensation and its recognition to improve its processes by contracting independent services for compensation of its AVPs and higher positions. However, NPCC could continue to improve on its compensation practices by determining whether additional measures should be taken in order to maintain sufficient resources to support its delegated activities and have adequate support for its operations. If NPCC continues to use a registered entity's compensation study, audit staff believes that NPCC should be transparent in this process in order to provide sufficient information to the NPCC Board, NERC, and the Commission through its annual budget filings.

Recommendations:

Audit staff recommends that NPCC:

14. Consider conducting an analysis to determine whether using an NPCC registered entity's compensation study allows NPCC to obtain sufficient information to make compensation decisions and is transparent to NPCC and its registered entities.

15. Consider revising its current policies and procedures for evaluating employee compensation by conducting compensation studies directly related to NPCC and all levels of employees.

V. Other Matter

6. Collection of Funding Requirement

Audit staff was concerned that NPCC did not have sufficient policies and procedures in place to ensure that its billing letters to the U.S. BAs identified the appropriate registered entities responsible for funding NPCC's nonstatutory Criteria Services (CS) division. Since NPCC did not identify the appropriate registered entities in its billings, the BAs socialized the costs of the CS division among all NPCC registered entities.

Pertinent Guidance

In Order No. 672, the Commission states that:

> We find that section 215 of the FPA provides for federal authorization of funding limited to the development of Reliability Standards and their enforcement, and monitoring the reliability of the Bulk-Power System. However, the ERO or a Regional Entity is not precluded from pursuing other activities, funded from other sources. We agree with commenters that any funding proposal should be developed in consultation with the users, owners, and operators of the Bulk-Power System and that no Regional Entity should subsidize the functions of another Regional Entity.[14]

Section XIII B of NPCC's Bylaws provides that: "General Members shall not be assessed an annual membership fee."

Background

NPCC split its operations into two divisions, one statutory and the other nonstatutory: (1) the Regional Entity (RE) division is statutory; and (2) the CS division is nonstatutory. NPCC's Bylaws defined its two classes of membership among its registered entities: General and Full. General Membership was open and voluntary to any person or entity with an interest in the reliable operation of the BPS. General Members were subject to compliance with the NERC Reliability Standards and received services from NPCC's RE division. Full Membership was available to General Members

[14] *Rules Concerning Certification of the Electric Reliability Organization; and Procedures for the Establishment, Approval, and Enforcement of Electric Reliability Standards*, Order No. 672, FERC Stats. & Regs. ¶ 31,204 at P 202, *order on reh'g*, Order No. 672-A, FERC Stats. & Regs. ¶ 31,212 (2006).

that participated in the electricity markets in Northeastern North America and elected to become Full Members. In addition to being subject to compliance with the NERC Reliability Standards, Full Members were also subject to compliance with regionally-specific, nonstatutory criteria. Full Members received services from the RE division and also received additional, separate services from the CS division.

Audit staff found that NPCC funded its nonstatutory CS division in the United States by directly billing the two U.S. BAs, which then collected the nonstatutory CS division funding requirement from NPCC's registered entities annually through tariff provisions.[15] Once the BAs collected the CS division funding requirement from NPCC registered entities, the BAs remitted the funds directly to NPCC. Similarly, to fund its statutory RE division, NPCC submitted its funding requirement to NERC, which then billed the BAs on NPCC's behalf. For both the statutory and nonstatutory funding requirements, the BAs collected the funds from registered entities through applicable tariff provisions. Audit staff reviewed these tariff provisions for the U.S. BAs and found that the provisions socialized the costs of the RE and CS division funding requirements among NPCC registered entities.

Audit staff was concerned with the sufficiency of policies and procedures NPCC had in place to ensure that NPCC identified the registered entities who were Full Members electing to receive services from its nonstatutory CS division in the billing letters that NPCC sent to the U.S. BAs. Audit staff reviewed the annual letters for 2011 and 2012 sent by NPCC to the U.S. BAs, which served as NPCC's billing to the BAs for the nonstatutory CS division funding requirements. In these letters, NPCC only identified the total amount due for the nonstatutory CS division funding requirement, with no mention of the registered entities responsible for bearing the cost. As a result, the collection of NPCC's funding requirement for its nonstatutory CS division was likely commingled with its statutory RE division funding requirement in the BAs' billings to registered entities. For example, in 2012, NPCC billed the U.S. BAs approximately $435,000 for its CS division funding requirement, of which the BAs socialized the cost to approximately 275 registered entities.

During discussions regarding the collection of NPCC's funding requirements, NPCC explained that the purpose of having the U.S. BAs collect its nonstatutory CS division funding requirement was for efficiency by eliminating the administrative burden on NPCC associated with billing and collection. NPCC stated that it billed the U.S. BAs for its nonstatutory CS division funding requirement, and the BAs collected the funding requirement for NPCC through a Commission-approved tariff provision.

[15] The two U.S. BAs that NPCC billed were the New York Independent System Operator, Inc. and the ISO New England Inc.

Audit staff believes that NPCC has the necessary information to improve the billing accuracy to the U.S. BAs by identifying the registered entities responsible for paying for the services provided by NPCC's nonstatutory CS division. Therefore, NPCC should take the necessary steps to ensure that the responsible registered entities pay for services provided to them by the CS division.

Recommendation

Audit staff recommends that NPCC:

16. Strengthen its policies and procedures to ensure the billing letters sent to the U.S. BAs for collection of the funding requirement of the nonstatutory CS division specify the registered entities responsible for bearing the cost of that division.

NPCC, Inc.

NORTHEAST POWER COORDINATING COUNCIL, INC.
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June 25, 2013

Via electronic mail
Mr. Bryan Craig
Director and Chief Accountant
Division of Audits
Office of Enforcement
Federal Energy Regulatory Commission
888 First Street NE, RM 5K-13
Washington, DC 20426

Re: Audit of the Northeast Power Coordinating Council, Inc.'s Regional Entity Responsibilities and Budgeting Practices, Docket No. PA12-10

Dear Mr. Craig:

In accordance with your June 10, 2013 letter, the Northeast Power Coordinating Council, Inc. ("NPCC") provides this response to the draft audit report's findings and conclusions. The audit addressed NPCC's regional entity responsibilities pursuant to the Delegation Agreement, the NPCC Bylaws, and other obligations and responsibilities as approved by the Commission and also evaluated NPCC's budget formulation, administration, and execution.

NPCC appreciates the audit team's objective and comprehensive review and accepts the draft audit report's performance enhancements, recommendations and corrective actions. Many of the recommendations address areas where NPCC was already in the process of strengthening certain practices, policies, and procedures. However, other recommendations offer NPCC the opportunity to consider further refinements and enhancements in its execution of its regional entity responsibilities.

On behalf of NPCC, I would like to thank the audit staff for their constructive feedback, courtesy and professionalism throughout the audit process. Consistent with the draft audit report, NPCC will continue to work with audit staff and commits to submitting quarterly reports up and until completion of all recommendations, in order to provide details of the corrective actions and our progress. Additionally, NPCC will propose its corrective action plan to audit staff within 30 days of issuance of the final audit report in this docket. If you have any further questions, please do not hesitate to contact me.

Sincerely,

/s/ Kristin Halper
Kristin Halper
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